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OP-ED COLUMNIST

## Gambling With Your Retirement

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**A** few weeks ago I tried to explain the logic of Bush-style Social Security privatization: it is, in effect, as if your financial adviser told you that you wouldn't have enough money when you retire - but you shouldn't save more. Instead, you should borrow a lot of money, buy stocks and hope for capital gains.

Before President Bush's big speech, [a background briefing by a "senior administration official"](#) made it clear that the plan calls for exactly the "borrow, speculate and hope" strategy I described - not just for the system as a whole, but for each individual.

Here's the money quote: "In return for the opportunity to get the benefits from the personal account, the person forgoes a certain amount of benefits from the traditional system. Now, the way that election is structured, the person comes out ahead if their personal account exceeds a 3 percent rate of return" - after inflation - "which is the rate of return that the trust fund bonds receive. So, basically, the net effect on an individual's benefits would be zero if his personal account earned a 3 percent rate of return."

Translation: If you put part of your payroll taxes into a personal account, your future benefits will be reduced by an amount equivalent to the amount you would have had to repay if you had borrowed the money at a real interest rate of 3 percent.

Peter Orszag of the Brookings Institution got it exactly right: "It's not a nest egg. It's a loan."

For years, privatizers - including Mr. Bush - have claimed that people would do better with private accounts than with traditional Social Security even if they played it safe and invested in U.S. government bonds (which yield 3 percent after inflation).

But the official at the briefing made it clear that his boss was fibbing: if you invested your private account in government bonds, you would face benefit cuts equal in value to your investment, so you would be no better off than under the current system.

The only way to get ahead would be to invest in risky assets like stocks, and hope for higher yields. But if the investment went wrong and you earned less than 3 percent after inflation, your benefit cuts would leave you poorer than if you had never opened that private account.

So people are expected to take a loan from the government and use it to buy stocks, and if that turns out to have been a mistake - well, too bad.

Experts usually tell people to plan for their retirement by investing in a mix of stocks and bonds. They

disapprove strongly of speculation on margin: borrowing to buy stocks. Yet Mr. Bush wants tens of millions of Americans to do exactly that.

Meanwhile, what does any of this have to do with the ostensible purpose of the whole thing: saving Social Security?

Here's the senior official again: "In a long-term sense, the personal accounts would have a net neutral effect on the fiscal situation of Social Security." The government would have to borrow huge sums up front to create the personal accounts - \$4.5 trillion in the first two decades - but it would supposedly make up for all that borrowing with offsetting cuts in account holders' benefits many decades later.

Color me skeptical: will retirees with private accounts that performed badly really be forced to repay their loans in full? Even if they are, private accounts will at best have a "net neutral effect" - that is, they will do nothing to improve Social Security's finances. Mr. Bush says the system faces a crisis; what does he propose to do about it?

The answer, presumably, is that his plan will also involve major benefit cuts over and above those associated with private accounts. And it's true that you can improve Social Security's finances with privatization, as long as you also slash benefits - just as you can kill a flock of sheep with witchcraft, provided you also feed them arsenic. (Thanks, M. Voltaire.)

Do you believe that we should replace America's most successful government program with a system in which workers engage in speculation that no financial adviser would recommend? Do you believe that we should do this even though it will do nothing to improve the program's finances? If so, George Bush has a deal for you.

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